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C O N F I D E N T I A L BAGHDAD 004108

SIPDIS

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SUBJECT: MINISTRY OF TRADE FOOD SUBSIDY REFORM PLANS

REF: BAGHDAD 4041

Classified By: ECON MINCOUNS Thomas Delare, Reasons 1.4 b/d

¶1. (C) Summary: State and MNF-I representatives met with Ministry of Trade (MoT) on October 3 to discuss Public Distribution System (PDS) reform. Minister Abd al-Basit Karim Mawlud told us that Prime Minister Jafari tasked an inter-ministerial committee to develop a reform plan by the end of the year. Abdul Kareem Fajer, Acting Director General for Foodstuffs, a state-owned enterprise operated by MoT, seemed supportive of PDS reform so long as it happened in small steps, and he agreed to informally participate on the PDS Reform Strategy Team with the Embassy. End summary.

Garnering Support

¶2. (C) During an October 3 meeting with MoT, we discussed PDS reform with Minister Karim. Minister Karim told us that the Prime Minister has assigned an interministerial committee to provide a reform plan by the end of the year. The committee consists of the Minister of Planning, the Minister of Finance, the head of the Trade Bank of Iraq (TBI), and Minister Karim. Minister Karim told us that the committee has met once, but that nothing has been achieved.

¶3. (C) In a separate meeting, Abdul Kareem Fajer, Acting Director General for Foodstuffs, a state-owned enterprise operated by MoT that controls a significant chunk of the PDS, was also supportive of PDS reform. He agreed to informally participate on a PDS Reform Strategy Team that is being chaired by the Embassy Economic Section. The goal of this team, which consists of State, MNF-I, USAID, FAS, and GOI representatives, is to engage the GOI on PDS reform aimed at eventual termination of the program in favor of a mechanism less prone to corruption and, ideally, targeted at the genuinely poor.

Avoiding Instability

¶4. (C) Earlier, Kareem had stated that PDS reform would need to happen in small steps. He argued that the Iraqi private sector is not prepared to fill the void that PDS reform undertaken too quickly would create. (In the past, Minister Karim has also expressed that reform would need to be slow.) Kareem believes Iraqis lack the knowledge and skills required to create a successful private-sector system to purchase, import, process, and distribute food throughout Iraq. In addition, he believes there is not enough capital available to entrepreneurs to acquire the necessary ships and trucks or to build the proper infrastructure. We agreed that the transition would be difficult, but told him we believed the change needed to start because the current PDS is failing and its funding is likely to diminish substantially (reftel).

¶5. (C) Kareem expressed concern that rapid reform could lead to instability. He said that Iraqis often disrespect the government authorities who operate the current PDS, and he worries that the situation could be worse if private-sector development is forced too quickly. Kareem believes that too many Iraqis currently view democracy as simply meaning that people can take matters into their own hands and no longer must bow down to authority.

¶6. (C) Comment: Kareem was receptive on PDS reform. As Acting Director General of Foodstuffs, he controls a large part of PDS operations, and considering the strong likelihood that he will be involved in the new government, we are pleased that he agreed to further engage us on PDS reform. In fact, the PDS appears increasingly dysfunctional, with spotty and lagging deliveries now the norm. It is also possible that budget cuts put in motion by the Ministry of Finance will force Kareem to make rapid changes in the PDS not currently envisioned in a slow reform process. End comment.

Khalilzad